

**IMPLEMENTATION OF THE AGREEMENT OF 30 MAY**  
**The financial mechanism and supplementary measures**  
**in favour of the United Kingdom**

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## 2. Implementation of the agreement of 30 May

United Kingdom: measures proposed

### The financial mechanism and supplementary measures in favour of the United Kingdom

1.2.1. On 12 June the Commission sent the Council two proposals to implement the agreement reached on 30 May<sup>1</sup> which would reduce the United Kingdom's contribution to the Community budget.

On 4 June, following the agreement on this sensitive issue ('convergence and budgetary questions'), the Commission had set about drafting these proposals along the lines of the 'Council conclusions of 30 May on the United Kingdom contribution to the financing of the Community budget'.<sup>2</sup> The Commission's proposals, adopted on 11 June, spelled out two of the methods to be employed, i.e. adapting the 1976 financial mechanism and instituting supplementary measures in favour of the United Kingdom.

### Adaptation of the financial mechanism

1.2.2. The Commission proposes that the financial mechanism introduced by the Council Regulation of 17 May 1976<sup>3</sup> be amended on several points, by simplifying it and by removing certain restrictions contained in the original text.

The Commission's proposal<sup>4</sup> reaffirms the aim in view when the mechanism was brought in: to prevent a situation incompatible with the proper functioning of the Community from arising where a Member State's economy, being in a special situation, would be forced to bear a disproportionate burden in the financing of the Community budget. In other words, the purpose was to enable certain payments from the budget to be made to the United Kingdom, the main party concerned, in the event of an excessive gap bet-

ween the sums paid by that country under the system of own resources and the contribution which it would have made had the amount been calculated proportionately on the basis of gross national products.

### *From the correcting mechanism to the adapted financial mechanism*

1.2.3. The idea of such a mechanism goes back several years, of course. At their meeting of 9 and 10 December 1974 in Paris, the Heads of State or Government decided to ask the institutions of the Community (the Council and the Commission)—in the words of the final communiqué of the meeting—'to set up as soon as possible a correcting mechanism of a general application which, in the framework of the system of "own resources" and in harmony with its normal functioning, based on objective criteria and taking into consideration in particular the suggestions made to this effect by the British Government, could prevent, during the period of convergence of the economies of the Member States, the possible development of situations unacceptable for a Member State and incompatible with the smooth working of the Community.'<sup>5</sup>

On 30 January 1975, in response to this request, the Commission adopted, for transmittal to the Council, a communication entitled 'The unacceptable situation and the correcting mechanism'<sup>6</sup> in which it set out the criteria and conditions for applying this

<sup>1</sup> Bull. EC 5-1980, points 1.1.1 to 1.1.18.

<sup>2</sup> OJ C 158 of 27.6.1980.

<sup>3</sup> OJ L 131 of 20.5.1976; Bull. EC 5-1976, point 2470.

<sup>4</sup> OJ C 171 of 11.7.1980.

<sup>5</sup> Bull. EC 12-1974, point 1104 (paragraph 37).

<sup>6</sup> Bull. EC 1-1975, points 2503 to 2510.

mechanism. The Heads of Government of the Nine, meeting for the first as the European Council in Dublin on 10 and 11 March 1975,<sup>1</sup> approved the correcting mechanism subject to certain changes. Finally, on 17 May 1976<sup>2</sup> the Council adopted the Regulation setting up the financial mechanism (new name for the correcting mechanism), which entered into force on 1 January 1976 for a trial period of seven years—terminating at the end of 1982.

In its present proposal—applying the compromise solution of 30 May—the Commission suggests two series of adjustments to the Regulation of 17 May 1976.

Three of them are changes to the rules for fixing the amount of the payment to be borne by the Community budget as provided for in the Regulation on the financial mechanism. They are:

- (i) abolition of the division into tranches of the excess amount of the applicant member State's contribution to the Community budget, which resulted in a considerable reduction in the payments;
- (ii) deletion of the limitation on the payment in the event of a positive balance of payments;
- (iii) removal of the ceiling on the payment, which was not to exceed either 250 million units of account or 3% of the total expenditure chargeable to the financial year covered by the Member State's application, whichever was the greater.

The removal of these three restrictions will make it possible to increase the payment to the recipient Member State.

The other changes are designed to solve certain technical or practical problems which have cropped up during the period in which the Regulation of 17 May 1976 has been in

force. The Regulation's other provisions—including its termination at the end of 1982 (Article 10)—remain effective.

### Supplementary measures in favour of the United Kingdom

1.2.4. The purpose of the Commission's second proposal for a regulation<sup>3</sup> is to institute supplementary Community measures to help solve the principal structural problems affecting the United Kingdom and hence contribute to the convergence of the economies of the Community Member States.

This proposal complements the first one, since, under the agreement of 30 May, it was agreed that payments would be made to the United Kingdom by means of both the adapted financial mechanism and supplementary measures proposed by the Commission.

In its proposal the Commission stresses that the United Kingdom's economic performance may be improved through the development of economic and social infrastructures, especially in assisted areas, and by investments related to the exploitation of coal resources. These *ad hoc* supplementary measures, covering 1980 and 1981, would take the form of special multiannual programmes submitted for the Commission's approval by the United Kingdom.

### *The special programmes*

1.2.5. Under the special programmes, the investment projects eligible for a financial

<sup>1</sup> Bull. EC 3-1975, point 1103.

<sup>2</sup> OJ L 131 of 25.5.1976; Bull. EC 5-1976, point 2470.

<sup>3</sup> OJ C 169 of 9.7.1980.

contribution by the Community (capital investments by public authorities) would be in the following spheres:

- (i) economic and social infrastructures, especially transport and communications, telecommunications, transmission of energy, water supply and sewerage, industrial sites, advance factories, subsidized housing;
- (ii) infrastructures necessary to urban renewal programmes;
- (iii) investments related to the exploitation of coal resources.

For infrastructures, the special programmes would be located within the regions covered, on 1 January 1980, by the regional development programmes provided for in the Regulation setting up the European Regional Development Fund (ERDF). Each of these programmes should: cover a whole region or that part or parts of a region eligible for assistance from the ERDF; be consistent with the regional development programmes provided for by the ERDF; contain the detailed information specified in an annex to the proposal. However, in exceptional cases or where there is a special Community interest, special infrastructure programmes might cover areas outside the regions referred to above.

For the special programmes concerning the exploitation of coal resources, the United Kingdom should submit to the Commission a statement of requirements, objectives, general physical characteristics of the investment projects, their cost and details of their financing and a timetable of their realization.

Before approving the special programmes submitted to it, the Commission would consult the Regional Policy Committee (for infrastructure projects) or the Energy Committee (for coal investments). A summary of each

programme would be published in the Official Journal.

The appropriations for these programmes would be entered in the budget of the financial year following the year to which they refer. However, at the request of the United Kingdom, the Council, acting on a proposal from the Commission, might decide to bring forward the implementation of the supplementary measures. The maximum rate of the Community's financial contribution to the special programmes would be 70%. As soon as it has taken the grant decision in accordance with the Financial Regulation,<sup>1</sup> the Commission would make a payment of 90% of the Community's contribution for each programme as far as funds were available.

The Commission would satisfy itself that the special programmes are carried out in accordance with the Regulation. Each year the United Kingdom would report to the Commission on progress made in carrying out each programme.

For its financial contribution, the Commission would take into consideration the payments made by the United Kingdom as from 1 January 1980.

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<sup>1</sup> OJ L 356 of 31.12.1977.